

**Portfolio Breakdown**

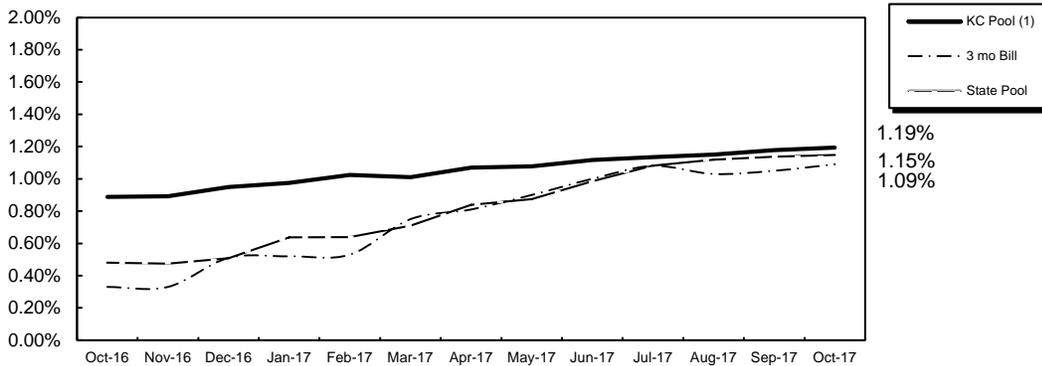
The following is a breakdown of the Investment Pool holdings for October 2017

	Average (\$000)	% of Portfolio
Governmental Agencies	2,223,789	32.8%
Commercial Paper	265,034	3.9%
Taxable Municipal Securities	-	0.0%
Bankers Acceptances	-	0.0%
Corporate Notes	1,095,075	16.1%
U.S. Agency Mortgage-backed Securities	4,930	0.1%
Repurchase Agreements (Repos)	209,452	3.1%
Treasury Securities	2,387,331	35.2%
Certificates of Deposit & Overnight Deposits	-	0.0%
Local Government Investment Pool (LGIP)	598,600	8.8%
Reverse Repurchase Agreements	-	0.0%
<b>Total</b>	<b>\$6,784,210</b>	<b>100%</b>

\*Average Pool Effective Duration: 0.98 Years

\*Duration is a better measure of interest rate sensitivity than average portfolio maturity.

**Investment Pool Performance (before Pool fees)**



(1) King County pool distribution rate has not been adjusted for realized losses (or recoveries) from impaired commercial paper investments.

**Pool Net Asset Fair Value on October 31, 2017**

Net Assets <sup>(2)</sup>	\$7,954,122,031.90
Net Assets Consist of:	
Participant units outstanding (\$1.00 par)	\$7,972,345,338.35
Undistributed and unrealized gains(losses)	(\$18,223,306.45)
Net Assets	<u>\$7,954,122,031.90</u>
Net asset value at fair value price per share	
(\$7,954,122,031.90 divided by \$7,972,345,338.35 units)	<u>\$0.9977</u>

(2) Excludes impaired assets that have been separated into a separate pool.

**Investment Pool Comments:**

**Asset Allocation:** The largest change in the pool's allocation occurred in its holdings of government agency securities. This was mostly due to the addition of more supranational notes to the portfolio. These notes are "AAA" rated securities issued by entities like the World Bank and the Inter-American Development Bank. The pool continued to hold the majority of its assets in highly-rated U.S. government securities with the next biggest allocation being to investment-grade corporate notes.

**Pool Asset Size & Return:** Due to the large inflows from property taxes during October, the pool's investment holdings surged to a record high of nearly \$8 billion. This represented an increase of \$1.4 billion from September's level. The pool's distribution rate also continued to improve in October; the rate was up by 1 basis point over the rate paid in September.

**Market Value & Duration:** The pool's unrealized loss grew by \$5.6 million between September and October. This was caused by interest rates moving up by 10 to 13 basis points in the 2 to 3 year portion of the yield curve. Interest rates rose during October because economic growth looked stronger around the world and Congress began to move forward on a tax reform proposal, which if adopted, might further stimulate economic growth. It could also result in an increasing fiscal deficit, and this could increase the future supply of Treasury notes, which might drive interest rates higher on U.S. debt. Finally, the pool's duration held steady 0.98 years.

We remain committed to sharing information with pool members, so if you have any questions, email us at [investment.pool@kingcounty.gov](mailto:investment.pool@kingcounty.gov).

**Impaired Pool Holdings Report  
10/31/2017**

Commercial Paper Issuer	Status	Current Book Value	Estimated Fair Value	Fair Value Adjustment
Cheyne Finance (1)	Restructured	787,502.14	507,750.00	279,752.14
Rhinebridge (1)	Restructured	84,407.60	84,407.60	-
VFNC Trust/Victoria Finance (2)	Restructured	7,262,196.85	4,788,209.00	2,473,987.85
<b>Total</b>		<b>8,134,106.59</b>	<b>5,380,366.60</b>	<b>2,753,739.99</b>

Fair Value Ratio	0.6615
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(1) These amounts are related to cash that was retained for DTC indemnifications and other reserves. It could be sometime in 2018 or 2019 before these "tail" amounts are returned to investors, and it is possible that the amount recovered may be less than the estimate.

(2) Victoria Finance's restructuring was completed during September 2009. The name of the restructured entity is VFNC Trust, and the new entity will continue to make monthly principal and interest payments. The *Estimated Fair Value* amount is based on market prices of the underlying securities that are held by VFNC Trust. These prices are provided by the Collateral Agent and the County expects to recover more than this estimated price by receiving regular monthly payments over the coming years.

**Impaired Pool Comments:**

The majority of the amount remaining in the impaired pool is associated with VFNC Trust (Victoria). VFNC Trust continues to make monthly cash distributions. The monthly distribution for October totaled \$171,802.77. Including all receipts to date, brings the cash recovery rate on the original Victoria investment to 86%. Monthly distributions will continue for as long as the underlying securities in the trust continue to pay, and we expect the monthly distributions to continue for at least 5 to 10 years.

We do not foresee distributing any realized losses until it is apparent that no further cash flows will be forthcoming. The market for this type of asset is illiquid and accurate pricing is difficult to obtain. Adding the cash recoveries through October to the last estimated price (53.9) for the VFNC Trust security results in an estimated recovery rate to senior investors of about 95%, but the actual recovery rate will depend on the size and duration of the future monthly cash distributions from VFNC Trust. At the time of Victoria's restructuring the County's financial advisory estimated that by participating in the exchange offer that the overall recovery rate could be between 50 to 76 percent, and potentially higher.

The County settled all lawsuits involving the securities held in the impaired pool, and all the parties involved in these lawsuits have reached a mutually acceptable resolution by way of a negotiated settlement that will avoid protracted litigation, there was no admission of liability, and all sides are satisfied with this resolution

The King County Executive Finance Committee approved bifurcation of the investment pool as of September 1, 2008. This separated the impaired investments into their own pool distinct pool from the main pool of performing investments. The reasons for bifurcating the pool were to: (1) ensure the yield on the performing assets is not negatively impacted by the impaired investments; (2) enhance transparency about the value of the performing pool and the impaired pool; (3) ease the implementation of the restructuring processes for the impaired investments; and (4) expedite the restoration of the Standard & Poor's rating for the performing pool.

Within the impaired pool, future "tail" payments from Cheyne and Rhinebridge are still possible. We expect Rhinebridge to make one final small payment in 2018, and it is likely that Cheyne will also make at least one distribution in 2018. When we determine that no further payments are probable from these impaired securities, any remaining unrealized losses will be distributed.